

PENINSULA SCHOOL DISTRICT No. 401
Pierce County, Washington
Special Audit
June 1, 1993 Through March 2, 1994

Schedule Of Findings

1. Internal Control Over Associated Student Body (ASB) Cheerleading Club Funds Needs Improvement

Our audit of the financial records of the Peninsula High School Cheerleading Club revealed extensive internal control weaknesses and irregularities. These weaknesses resulted in losses of at least \$3,305 in public funds during the period June through September 1993. It was not possible to determine the total amount of the loss or assign complete responsibility for the loss of funds due to inadequate internal controls and accounting records. There were no federal funds involved in this case. The circumstances surrounding the loss are described below.

The Peninsula High School Cheerleading Club advisor was responsible for supervising the activities of the student organization. These duties included receipting and depositing funds received on behalf of the students and the related financial record keeping.

From June through September 1993, members of the cheerleading club conducted multiple fund raising events. Based on procedures established by the advisor, the cheerleaders' parents supervised the various car washes, sales, and other fund raising activities, then submitted the proceeds to the advisor.

The advisor violated district policy and state law when she failed to deposit funds she received on behalf of the cheerleading club intact to the district's authorized depository account in a timely manner.

The advisor established a bank checking account under the name "PHS Cheerleaders' Booster Account." She then deposited cheerleading club fund revenues totaling \$3,168.54 to this account. Although a supervisor was aware of the account and its use, district management was not informed and the account was never authorized as required by district policy.

In addition, the advisor deposited some club money in checks payable to the cheerleading club to her personal credit union account.

None of the cheerleading club revenues received by the advisor were deposited to the school depository account until September 1993. At that time, the advisor submitted the balance of the cheerleading club funds (\$423.06), to the Peninsula High School ASB bookkeeper at the request of district management.

Article XI, Section 15 of the *Constitution of the State of Washington* requires that all moneys collected for the use of any public or municipal corporation shall immediately be deposited with the treasurer or other legal depository.

In addition, RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive

payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

Furthermore, RCW 28A.325.030 provides:

All moneys generated through the programs and activities of any associated student body shall be deposited in the associated student body program fund.

The advisor also violated district policy and state law when adequate accounting records were not maintained in compliance with district policy and guidelines prescribed by the State Auditor and set forth pursuant to WAC 392-138-045 in the *Accounting Manual for School Districts in the State of Washington*.

The advisor was unable to provide adequate accounting records or supporting documentation for the majority of the cheerleading club's financial activity. The extent of the records produced were as follows:

- a. A handwritten list indicating that she had made purchases totaling \$3,496 on behalf of the cheerleading club from both the unauthorized "Cheerleaders' Booster Account" bank checking account and her own personal credit union account.
- b. Receipts of \$925 supporting a portion of \$3,496 in the expenditures she claimed to have made on behalf of the cheerleading club.

RCW 43.09.200 states in part that:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show . . . all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept . . . necessary to isolate and prove the validity of every transaction

The records produced by the advisor to account for the financial activities of the cheerleading club do not comply with the above requirements.

The advisor resigned from her position with the school district on February 5, 1994. She did not respond to inquiries made by us for an explanation of these activities.

Due to the lack of accounting records and the largely cash composition of the funds received, it was not possible to accurately determine the total amount of revenue earned by the cheerleading club from June to September, or the amount the advisor received and disbursed for public purposes on the students' behalf.

Based on documentation provided by cheerleading club members and their parents, we have determined that the cheerleading club earned at least \$5,877 in revenue during the period under audit. Therefore, of the \$3,496, only a portion of the expenditures the advisor claimed to have made on behalf of the students totaling \$2,149, was either adequately supported by available documentation or verified through interviews with the students and vendors.

Cheerleader club revenues totaling at least \$3,305 are missing or left unaccounted for by the advisor. This figure was derived at as follows:

Determined Revenues	(At least)	\$5,877
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Verified Expenditures	(2,149)
Amount submitted to ASB bookkeeper	<u>(423)</u>
Amount Missing or Unaccounted (At least)	<u>\$3,305</u>

The following internal control weaknesses in the district allowed this loss to occur:

- a. The employment contract between the advisor and the Peninsula School District did not adequately set forth the terms of the agreement. The contract did not describe the advisor's responsibilities, duties, or period of employment. This may have led to confusion over responsibilities and made it impossible to distinguish between the advisor's failure to follow district policy and management's failure to provide adequate information, supervision and enforcement.
- b. The advisor did not receive adequate supervisory oversight. Her immediate supervisor was aware of the unauthorized checking account and its intended use. Yet, apparently, neither of them recognized it as a violation of district policy. Despite the fact that the cheerleading club regularly conducted summer fund raising activities, the advisor was never issued official pre-numbered district receipts or deposit slips. Procedures intended to establish accountability, accurately record financial transactions, and ensure that district assets are protected were neither followed nor enforced.

The weaknesses listed above allowed irregularities to occur which were not detected in the normal course of business. An adequate internal control system provides management with assurance that assets are better safeguarded from loss.

We recommend the district correct the internal control weaknesses identified above and implement an effective system of internal control in this area, designed to ensure the protection of public assets.

2. Internal Control Over Associated Student Body (ASB) Funds At The Peninsula High School Student Store Needs Improvement

Our audit of the financial records of the student-run Peninsula High School Student Store revealed losses of candy and beverages inventory totaling at least \$1,652 (valued at cost) during the period September 14, 1993, through March 2, 1994. The accounting records were not adequate to allow us to accurately determine the full extent of the loss. There were no federal funds involved.

Operating records maintained by the student store indicated that the store was experiencing frequent inventory shortages over the course of the 1993-94 school year. Theft of candy and beverages by customers and/or student workers is the most likely reason for the missing merchandise.

These losses occurred due to weaknesses in the student store's internal control procedures as described below.

- a. Inadequate separation of duties. Accounting procedures did not provide clear guidelines for the separation of incompatible duties such as safeguarding of inventory, inventory counts, and sales.
- b. Lack of physical control over inventory. Access to the student store facility was not adequately controlled.
- c. Lack of control over write-offs for waste, spoilage, promotional markdowns and voided transactions. Procedures did not provide clear guidelines for approvals or record keeping for these types of transactions.
- d. Inadequate accounting records. Revenue records were unreliable due to computer accounting system difficulties during the course of the school year. Records of inter-club transfers, waste and spoilage write-offs, and promotional markdowns were incomplete.

These same internal control weaknesses made it impossible to fix responsibility for the losses to any individual.

An adequate system of internal controls should include policies and procedures designed to safeguard assets and ensure the reliability of accounting data.

We recommend district officials review overall accounting controls, correct the weaknesses outlined above, and implement an effective system of internal controls.